

Testimony of Stanley W. Tucker
before the
U.S. Senate Committee on Small Business & Entrepreneurship
Field Hearing Regarding Access to Capital for Minority-Owned Businesses

My name is Stanley W. Tucker, President of Meridian Management Group, Inc. At the request of the Honorable Senator Ben Cardin, I am here today to provide testimony on the lack of access to capital by minority-owned businesses.

Meridian Management Group, Inc. (“MMG”), formed in 1995, is a private for-profit fund development and management firm with particular expertise investing in small, minority, women and veteran-owned business markets. Our management team has more than 200 years combined expertise in the market, long-standing working relationship among its partners, a proven track record of success and a commitment to underserved markets.

Our mission is to create wealth via the efficient deployment of capital to under-served markets. MMG creates and manages innovative debt and equity funds that target small, minority, women and veteran-owned businesses. We also provide management and technical assistance as an integral part of our underwriting and portfolio management process.

MMG currently manages the following funds:

- Maryland Small Business Development Financing Authority (“MSBDFA”);
- A portion of the Invest Maryland program;
- Maryland Casino Business Investment Fund (“MCBIF”) which is one of the Video Lottery Terminal Funds administered by the State of Maryland;
- Community Development Ventures, Inc. (“CDV”); and
- MMG Ventures, LP, a specialized small business investment corporation.

Through its family of funds, MMG offers various forms of debt, bonding and equity financing. These funds are designed to complement each other.

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<u>Debt</u>	<u>Bonding</u>	<u>Equity</u>
MSBDFA Contract Financing	MSBDFA Surety Bonding	MSBDFA Invest Maryland Program
MSBDFA Long Term Guaranty		MSBDFA Equity Participation Investment Program ("EPIP")
MSBDFA Equity Participation Investment Program ("EPIP")		Community Development Ventures ("CDV")
Maryland Casino Business Investment Fund ("MCBIF")		MMG Ventures

The growth and development of socially or economic disadvantaged firms has always been vital to strengthening the state's economy. MSBDFA is the State of Maryland's primary vehicle for providing financing to minority and women-owned businesses. MSBDFA has provided over 80% of its debt, bonding, loan guarantees and equity financing to minority and women-owned businesses in Maryland. During the past 5-year period, MSBDFA provided \$37.5 million in financing to 111 transactions. Its total exposure was \$29.2 million. 80% of the number of financings, or 73% of the dollars were provided to minority-owned businesses. 24% of the number of financings were provided to women-owned businesses, while 18% of the dollars were used to assist those businesses.

During the 10 year period from 2000-2009, the state invested \$21 million into MSBDFA. This investment generated \$140 million in local and state tax revenues. This is a return on investment, after loan losses, in excess of 600% or 6.6 times the investment. The estimated Economic Impact on Maryland was:

1. \$3.4 billion in sales;
2. \$1.04 billion in income;
3. 3,007 full-time equivalent jobs;
4. \$109.0 million in state sales and personal income taxes; and
5. \$31.0 million in local personal income tax receipts - a combined total of \$140.0 million.

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Demographic Trends for Minorities in the Maryland:

According the Maryland Department of Planning, the total population in Maryland in 2010, was 5.7 million. By 2015, it is projected to increase by 4% to 6 million. By 2020, it is projected to increase an additional 4% to 6.2 million. The ethnic minority population in Maryland in 2010 was 45%. By 2015, it is projected to increase to 48%. By 2020, it is projected to be 50%. By 2025, it is projected to be 52%. The Maryland K through 12 public school enrollment is currently majority minority. The female population over 16 years of age in Maryland in 2010 was 42%. Through 2025, it is projected to remain 42%.

We must pay attention to the new demographics. These demographic trends impact critical areas such as education, employment, housing, income and businesses.

Current Status of Minority Business Enterprises (MBEs):

Based on the latest census, there are 509,273 firms in Maryland, of which 32.2% (164,130) are minorities. The gross domestic product (GDP) in Maryland for all firms in 2013 was \$342.3 billion, of which minority businesses represent 9.6% (\$32.7 billion) of the GDP. There is a major difference between the number of minority firms and their percentage of the GDP.

Importance of MBEs to the State:

According to the Governor's Office of Minority Affairs 2013 Economic Impact Report, the contract payments from the State to MBEs have:

- Created or saved 26,796 jobs
- Generated \$1.1 billion in wages and salaries
- Generated \$88.9 million in state and local tax revenues

If we double the GDP percentage generated by minority-owned firms, it is estimated it that MBEs would generate:

- \$32 billion to the Maryland economy
- 53,592 new jobs, the majority of which would benefit the minority community
- \$177.8 million in tax revenues

As we grow these businesses we strengthen the economy and strengthen the economic base of minority communities by hiring people from minority communities.

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Access to Capital:

Minority-owned businesses continue to be the engine of employment in emerging and minority communities. For minority-owned firms to flourish there is a strong need for adequate capital for the firms to realize their full potential.

Business growth depends on a variety of capital, from seed funding to establish new firms, to working capital and business loans to expand their businesses, to private equity for acquiring and merging with other firms.

Numerous disparities studies have shown that Minority and women-owned firms are less likely to receive loans than majority owned firms and receive lower loan amounts than majority owned firms.

Among firms with gross receipts under \$500,000, loan denial rates for minority firms were about three times higher, at 42 percent, compared to those of non-minority-owned firms, 16 percent. For high sales firms, the rate of loan denial was almost twice as high for minority firms as for non-minority firms. Minority-owned firms also receive smaller equity investments than non-minority firms. The average amount of new equity investments was \$3,379 for minority firms with low sales, which is 43 percent of the non-minority level. The average amount of new equity investments was \$7,274 for minority firms with high sales, which is 38 percent of the non-minority level. (The source of this data is the Minority Business Development Agency).

Conclusion:

Minority-owned firms are less likely to receive loans than non-minority firms and receive lower loan amounts than non-minority firms.

Maryland's minority and women-owned business community has a positive economic impact that provides a great return on the State's investment.

Minorities are becoming a majority of the Maryland population. This is a nationwide trend.

Research shows that minority-owned businesses hire a larger percentage of minorities. Minority businesses are also more receptive to employing ex-offenders.

As the minority population steadily increases, the number of minority-owned firms will flourish as well. Due to this growth, there is a strong need for adequate capital for the firms to realize their full potential.